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SUBJECT: The Japan Economic Scope -- Economic News At-A-Glance.

Sensitive but unclassified. Please protect accordingly.

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[1](#)2. (U) The Japan Economic Scope (JES) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the December 1, 2006, JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email ProgarJ@state.gov.

[1](#)3. (SBU) GOJ Backsliding on Triangular Mergers

As we approach the end-game for implementation of new rules to facilitate FDI into Japan by allowing cross-border M&A through stock swaps ("triangular mergers"), the GOJ bureaucracy has begun to backslide and is proposing to deny tax deferral for the majority of these deals, making the procedure effectively unusable.

This sudden shift in position in the final days before the Diet will decide on tax amendments for FY-2007 contradicts repeated GOJ assurances to the foreign business community and to us and, if sustained, would cripple the Prime Minister's stated goal of doubling inward FDI by 2010.

Japanese companies now have meaningful opportunities to acquire U.S. companies via M&A, but, without tax deferral, U.S. companies would be unable to acquire Japanese firms using all-stock deals.

We will focus last lobbying efforts to overrule the bureaucracy on senior political leaders and LDP tax committee members and expect to raise this issue at the forthcoming sub-cabinet meetings.

4.(SBU) Japan Starts Indonesia EPA Process with Focus on Energy

Prime Minister Shinzo Abe and visiting Indonesian President Susilo Bambang Yudoyono on November 28 agreed in principal on elements of an economic pact that will form the basis for a free trade agreement.

If completed, it also will be Japan's first to incorporate cooperation over a stable supply of energy and mineral resources, in particular, liquefied natural gas (LNG).

Japan is the world's largest LNG importer-58 million tons in 2005-and Indonesia is Japan's largest supplier at about 24 percent.

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Indonesia's increased domestic consumption has forced the country to reassess whether to renew its current LNG supply contracts with Japan, which expire in 2010 and 2011.

Japan is hoping that an EPA by next year would ensure Japan continues to receive LNG from Indonesia.

15. (SBU) ANRE's Arima Outlines Sub-Cabinet Energy Goals

Japan's Trade Ministry is looking for USG support to ensure a secure world energy supply during next week's sub-cabinet meetings in Tokyo.

Agency for Natural Resources and Energy (ANRE) International Affairs Division Director Jun Arima repeatedly emphasized to us that Japan was looking to "send a signal to emerging countries like India and China" and wanted a "coordinated approach" with the United States.

Arima said that the plan for next week is that MOFA Deputy Minister for Economic Affairs Mitoji Yabunaka will give a general energy presentation and METI International Affairs Vice-Minister Toshiaki Kitamura will follow with a discussion of specifics.

The two Ministries wish to make three main points: that the United States and Japan must engage China and India on energy at multi- and bilateral levels; that new investment in energy-producing countries must be fair and transparent; and that energy diversification, such as the use of clean coal and nuclear energy, must be the centerpiece of a global energy strategy. Arima also stressed the need to end energy subsidies.

16. (U) Agriculture Minister Seeks to Increase Biofuel Production

Agriculture Minister Toshikatsu Matsuoka hopes to replace ten percent of annual gasoline consumption, currently at 60 million kilo liters, with biofuel.

If realized, the target could halt expansion in idle farmland -- a rising concern in the aging farming sector -- as it would trigger demand for rice, wheat, corn and sugarcane.

Under Prime Minister Abe's orders, ministries of Trade, Agriculture, Environment, Transportation etc. have begun discussions on measures to increase biofuel production. A study group aims to draft a time schedule by the end of March 2007.

The figures Matsuoka raise are hailed as somewhat optimistic, especially by the Ministry of Economy, Trade and Industry (METI), the authority for energy policies, which pursues in addition to biofuel, other possible alternatives for gasoline, such as fuel cells and hybrid electric cars etc.

Trade Minister Amari has reportedly mentioned that "Japan needs to double the size of its farmland if it were to achieve (Minister Matsuoka's) target using sugar beets", hinting how difficult this would be.

In the meantime, sensing opportunities, trading firms and petroleum related sectors are reportedly starting to pursue the possibility of imports from Brazil. Experiments for biofuel production that are subsidized by the Agriculture Ministry are already underway in six locations, including Hokkaido and Okinawa. However, annual turnout is still limited to 30 kiloliters. In order to serve as an alternative for gasoline, costs need to be cut by streamlining facilities for mass production, accelerating technical innovation and

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implementing exemption or reduction in tax rates for the fuel.

17. (U) Hokkaido Agriculture Co-op Proposes Japan's Largest Ethanol Plant

Isami Miyata, president of Japan Agricultural Cooperatives Central Hokkaido (JACH), announced in late October that JACH plans to build a new ethanol testing plant by as early as 2009 in the Tokachi region of Hokkaido if it receives funding from the Ministry of Agriculture, Forestry and Fisheries(MAFF).

The new ethanol plant would be located in the town of Shimizu at the center of current LDP Policy Research Council Chairman and Former MAFF and METI Minister Shoichi Nakagawa's electoral district. If realized, the plant would produce 15,000 kiloliters of ethanol annually from locally grown sugar beets, rice and wheat, making it the largest ethanol plant in the country.

MAFF has included funding in next year's budget for three ethanol plants. Sensitive about moving into an energy sector traditionally controlled by METI, Tokyo-based rather than Hokkaido-based MAFF officials have been conducting talks with JACH to see if the proposed plant might qualify for this funding.

18. (SBU) Northeast Asia Energy Newsletter

The Northeast Asia energy officers produce a monthly newsletter on regional energy topics, attached below. If you would like to be included on the mailing list

please send a note to John Wecker.

(U) Russia Oil Seminar Reveals Differing Views on
Russian Energy Policy

Two Russian guest panelists at a November 9 seminar on Russian energy strategy in Tokyo displayed starkly different views on Moscow's energy policy.

An executive of the energy company Rosneft strenuously defended the Russian government and its environmental policies, particularly as they relate to the Russian island Sakhalin.

A journalist specializing in energy issues had a more cynical view of Russian motives and was particularly critical of the government's relationship with Russian gas major Gazprom.

A Japanese guest panelist, the chief researcher at Japan Oil, Gas and Metals National Corporation (JOGMEC) said little other than to outline concerns over the Sakhalin 2 project, the one project out of six on Sakhalin Island in which Rosneft has not investment.

For more details please see Tokyo 6758.

10. (SBU) Yen Exchange Rate and GM and Chrysler Japan;
No Complaints Here

Following up on the Big Three automakers' meeting with the President last month in Washington, in which they complained about an artificially undervalued yen, we met with GM and Chrysler Japan to get their perspectives.

Neither company is making an issue of the yen exchange rate here. Their main concerns are to promote their premium car sales in Japan, which they anticipate to be on the order of several thousand units a year.

We will meet with Ford shortly to get their take as well.

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11. (U) Embassy Attends Corporate Signing Ceremony,
Direct Outcome of Investment Initiative

On November 29 we attended a signing ceremony between a U.S. high tech company and its Japanese sole agent.

The U.S. company, Ann Arbor-based Coherix Corporation, makes high precision measuring equipment for use in machine tools. Its sales focus is on Japan's auto manufacturers.

Coherix participated in the Embassy-JETRO sponsored investment seminars in Sendai and Yokohama in early October.

12. (SBU) Japan's "Core" Consumer Price Growth
Decelerates Again in October, Up Mere 0.1%

Japan's nationwide "core" CPI, which excludes perishable food items, rose 0.1 percent in October from the year before, after increases of 0.3 percent in August and 0.2 percent in September, the Ministry of Internal Affairs and Communication (MIC) announced December 1.

13. (SBU) Recent Major Economic Indicators

The Cabinet Office states that Japan's economy has set a post-war boom record, although conditions have worsened slightly.

The monthly economic report, submitted to the Cabinet on November 22, indicated that the economy is in its record 58th month of growth, exceeding the "Izanagi" boom of 1965-1970.

The report said that the economy is recovering, despite some weakness in consumption. It added that private consumption is almost flat.

The BOJ report, released on November 16, kept unchanged its overall assessment, indicating that the economy is "expanding moderately."

The BOJ said that domestic private demand is likely to continue increasing against the background of strong corporate profits, and a moderate rise in household income.

As for the outlook, the BOJ expects the economy to continue expanding moderately.

SCHIEFFER